

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-15 EUR-12 EA-12 IO-14 ISO-00
AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00 FRB-01
H-02 INR-10 INT-05 L-03 LAB-04 NSAE-00 NSC-05
PA-02 CTME-00 AID-05 SS-15 STR-07 ITC-01 TRSE-00
ICA-20 SP-02 SOE-02 OMB-01 DOE-15 /173 W
-----093727 122230Z /64

R 112000Z SEP 78

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 462

INFO USMISSION GENEVA

AMEMBASSY PARIS

AMEMBASSY OTTAWA

AMEMBASSY LIMA

AMEMBASSY LONDON

AMEMBASSY BELGRADE

AMEMBASSY MEXICO

AMEMBASSY KINSHASA

AMEMBASSY LUSAKA

AMEMBASSY OSLO

AMEMBASSY HELSINKI

AMEMBASSY ROME

AMEMBASSY CAMBERRA

AMEMBASSY BRUSSELS

AMEMBASSY BONN

AMEMBASSY PORT MORESBY

AMEMBASSY PRETORIA

AMEMBASSY THE HAGUE

AMEMBASSY MADRID

AMEMBASSY STOCKHOLM

AMEMBASSY MANILA

AMEMBASSY JAKARTA

AMEMBASSY TOKYO

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EO 11652: NA

TAGS: EMIN, ETRD, GATT, US, CI

SUBJ: GOC REACTION TO USITC RECOMMENDATION ON REFINED UNWROUGHT
COPPER

REF: (A) STATE 222224 (B) STATE 196543 (C) STATE 203263
(D) SANTIAGO 6738

SUMMARY: GOC MINISTER OF MINES VALENZUELA AND CODELCO-CHILE SALES MANAGER GASTON FREZ IN SEPARATE CONVERSATIONS EXPRESSED VIEW THAT U.S. COPPER PRODUCERS' COMPLAINT IS DISINGENUOUS. ACCORDING TO THESE OFFICIALS, U.S. PRODUCERS' PROBLEM IS LOW ORE CONTENT, NOT IMPORTS. IMPOSITION OF 300,000 MT/YEAR GLOBAL QUOTA WILL NOT RESOLVE ORE CONTENT PROBLEM BUT WILL BUILD UP DEPENDENCE ON QUOTA PROTECTION. GASTON FREZ SEES QUOTA COSTING CHILE UP TO \$39.7 MILLION/YEAR IN LOST EARNINGS. MINISTER VALENZUELA BELIEVES THIS COST WILL BE OFFSET BY OTHER SALES INCLUDING TO PRC. BOTH VALENZUELA AND FREZ EXPRESSED BELIEF THAT PRESIDENT CARTER WILL REAFFIRM U.S. FREE TRADE POLICY AND REJECT USITC RECOMMENDATION. IN THE INTERIM USITC STANCE GIVES OPPORTUNITY TO STRENGTHEN PORUCERS' CARTEL. END SUMMARY.

1. GOC MINISTER OF MINES ENRIQUE VALENZUELA AND CODELCO-CHILE SALES MANAGER GASTON FREZ MADE THE FOLLOWING POINTS IN REACTION TO USITC DECISION/RECOMMENDATION ON IMPORTS OF REFINED UNWROUGHT COPPER: (A) AS THE U.S. IS NOT AN EFFICIENT LOW-COST PRODUCER, U.S. PRODUCERS WILL CONTINUE TO BE SUBJECT TO THE VAGARIES OF THE LME PRICE FLUCTUATIONS, (B) U.S. PRODUCERS WILL NEVER BE ABLE TO COMPETE WITH CHILEAN EXPORTS WHEN THE COPPER CONTENT DIFFERS FROM .07 IN THE U.S. TO 1.5 PLUS IN CHILE AND (C) COSTS OF PRODUCTION DUE TO DIFFERENTIAL ENVIRONMENTAL, SAFETY AND HEALTH STANDARDS ARE MORE THAN OFFSET BY INCREASED TRANSPORTATION, EQUIPMENT AND INVENTORY COSTS TO CHILE.
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2. FROM A POLICIY VIEWPOINT MINISTER VALENZUELA EXPRESSED DISAPPOINTMENT WITH INCREASING PROTECTIONIST TREND IN THE U.S. AND DISMAY AT U.S. BUSINESS TACTICS ENDORSING FREE TRADE ONLY WHEN IT FAVORS THE U.S. VALENZUELA STATES THAT IF THE LME PRICE WERE QUOTE NORMAL UNQUOTE NO COMPLAINT WOULD HAVE BEEN PRESENTED TO THE USITC, EVIDENCE TO HIM THAT THE PROBLEM IS NOT IMPORTS BUT THE U.S. COST OF PRODUCTION WHICH HE DESCRIBES AS ESSENTIALLY A PROBLEM OF LOW ORE GRADE. VALENZUELA EXPRESSED HIS BELIEF THAT PRESIDENT CARTER WILL REJECT THE USITC RECOMMENDATION ON THE IMPOSITION OF A 300,000 MT GLOBAL QUOTA.

3. GASTON FREZ SHARES VALENZUELA'S OUTLOOK BUT HAS PREPARED A DAMAGE ASSESSMENT IN THE EVENT PRESIDENT CARTER DOES ACCEPT THE USITC RECOMMENDATION. ACCORDING TO FREZ A 300,000 MT/YEAR IMPORT QUOTA WILL AFFORD U.S. PRODUCERS APPROXIMATELY 100,000 MT OF EFFECTIVE PROTECTION ANNUALLY. FREZ CONSIDERS THIS AMOUNT A NET ADDITION TO GLOBAL SUPPLY WITH A DOWNWARD EFFECT ON THE LME PRICE OF BETWEEN .006 - .01 CENTS/POUNDS/YEAR. IN 1977 CHILE EXPORTED 617,500 MT OF REFINED UNWROUGHT COPPER WITH EARNINGS OF \$807 MILLION AT AN AVERAGE LME PRICE OF 59.29 CENTS/POUND. A LOSS OF .006 - .01 CENTS/POUND/YEAR WOULD RESULT IN A

NET ANNUAL EARNINGS LOSS TO CHILE OF BETWEEN \$8.16 - \$13.6
MILLION.

4. BESIDES THE GLOBAL PRICE EFFECT, A CURTAILMENT OF U.S.
IMPORTS WOULD LIKELY REDUCE CHILEAN EXPORTS PROPORTIONATELY
TO THE 20 PERCENT AVERAGE CHILEAN SHARE OF THE U.S. IMPORT
MARKET FOR REFINED UNWROUGHT COPPER. ASSUMING A 100,000 MT/
YEAR LEVEL OF PROTECTION FREZ ASSUMES CHILEAN EXPORTS WOULD FALL
BY 20,000 MT/YEAR REPRESENTING A LOSS AT CURRENT MARKET PRICES OF
\$26.1 MILLION PER YEAR. CODELCO'S ROUGH ESTIMATES IMPLY A
TOTAL NET ANNUAL EARNINGS LOSS TO CHILE OF BETWEEN \$34.3 AND
\$39.7 MILLION SHOULD PRESIDENT CARTER ACCEPT THE USITC
RECOMMENDATION.

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PA-02 CTME-00 AID-05 SS-15 STR-07 ITC-01 TRSE-00
ICA-20 SP-02 SOE-02 OMB-01 DOE-15 /173 W
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R 112000Z SEP 78
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 463
INFO USMISSION GENEVA
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5. HOWEVER, IN THE VIEW OF THE MINISTER OF MINES THIS PROJECTED LOSS WILL BE OFFSET BY OTHER FOREIGN DEMAND. THE MINISTER MENTIONED SPECIFICALLY A PRC REQUEST FOR 30,000 MT/YEAR WHICH CODELCO HAS SO FAR DECLINED DUE TO CAPACITY LIMITATIONS. SHOULD THE U.S. IMPOSE A QUOTA, AND THUS LIMIT SUPPLY CONTRACTS WITH U.S. IMPORTERS, CHILE WILL DIVERT ITS PRODUCTION TO OTHER CONSUMERS (ALBEIT AT A LOWER PRICE). IN THIS REGARD THE MINISTER EXPRESSED SOME CONCERN FOR THE DISRUPTION OF USUAL TRADE PATTERNS AND THE EFFECT ON FUTURE TRADE OF BREAKING SUPPLY COMMITMENTS.

6. CODELCO IS ANALYZING THE WORLD MARKET TO DETERMINE THE EXTENT TO WHICH A U.S. IMPORT QUOTA WILL RESULT IN A SUBSTITUTION OF IMPORTS OF REFINED UNWROUGHT COPPER BY IMPORTS OF ELABORATED PRODUCT. CODELCO'S INITIAL IMPRESSION IS THAT U.S. ELABORATED COPPER IMPORTS WILL RISE PROPORTIONALLY TO THE HIGHER COST OF U.S.-SUPPLIED, REFINED UNWROUGHT COPPER. CODELCO BELIEVES THAT THE SUBSTITUTION EFFECT OF HIGHER U.S. PRODUCER PRICES, IN ADDITION TO RESULTING IN INCREASED IMPORTS OF FINISHED PRODUCT, WILL CAUSE AN INCREASE IN STOCKS. CODELCO THUS SEES THE IMPORT QUOTA RESULTING IN INCREASED U.S. INFLATION, EXPORT OF JOBS IN THE MANUFACTURING SECTOR AND AN INCREASE IN STOCKS CAUSING EVEN GREATER DOWNWARD PRESSURE ON WORLD PRICES. THE LATTER, ACCORDING TO CODELCO, INSINUATES THE BEGINNING OF A VICIOUS CYCLE SINCE LOWER GLOBAL PRICES MEAN U.S. PRODUCERS WILL CONTINUE TO BE DEPENDENT ON IMPORT PROTECTION EVEN AT THE TERMINATION OF THE FIVE-YEAR QUOTA SINCE THE U.S. PROBLEM IS MOSTLY ONE OF LOW ORE CONTENT.

7. TO DATE CODELCO HAS BEEN CHARGED WITH REPRESENTING THE CHILEAN POSITION AND DID SO BEFORE USITC HEARINGS AND WILL SUBMIT A BRIEF TO THE UPCOMING SPECIAL TRADE REPRESENTATIVE HEARINGS (SEE REF D). THE ACTION RESPONSIBILITY, HOWEVER, MAY BE SHIFTED. THE MINISTRY OF MINES HAS RECOMMENDED THAT THE GOC

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ACT THROUGH CIPEC IN CONCERT WITH THE OTHER MAJOR PRODUCERS RATHER THAN MAKE AN INDIVIDUAL DEMARCHE. IN THIS REGARD, GASTON

FREZ SEES THE U.S. QUOTA AS REINFORCING THE COPPER CARTEL BY
ESTABLISHING A COMMON GROUND OF DAMAGE TO AND OPPOSITION AMONG
THE MEMBERS OF THE CARTEL.
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